

ORDER NO. 3748

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Mark Acton, Vice Chairman;  
Tony Hammond; and  
Nanci E. Langley

Competitive Product Prices  
Inbound Parcel Post (at UPU Rates)

Docket No. MC2017-58

Competitive Product Prices  
Inbound Parcel Post (at UPU Rates)

Docket No. CP2017-86

ORDER APPROVING IN PART CLASSIFICATION CHANGES  
FOR INBOUND PARCEL POST (AT UPU RATES)

(Issued January 11, 2017)

I. INTRODUCTION

The Postal Service proposes a change in prices not of general applicability for Inbound Parcel Post (at Universal Postal Union (UPU) rates), effective January 1, 2017.<sup>1</sup> The Postal Service also proposes changes to the Mail Classification Schedule

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<sup>1</sup> Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), Change in Mail Classification Schedule, and Application for Non-Public Treatment, December 19, 2016, at 1, 2 (Notice).

(MCS). Notice at 2. For the reasons discussed below, the Commission approves the Postal Service's proposed classification changes, in part.

## II. BACKGROUND

*Inbound Parcel Post (at UPU rates).* At the time it established separate product lists for market dominant and competitive products in 2007, the Commission assigned Inbound Air Parcel Post to the competitive product list.<sup>2</sup> During 2009, Inbound Air Parcel Post was bifurcated.<sup>3</sup> In Order No. 362, the existing product, Inbound Air Parcel Post, was renamed Inbound Air Parcel Post (at non-UPU rates). Docket Nos. MC2010-11 and CP2010-11, Order No. 362 at 8-9. In that same Order, the Commission approved the addition of a new product, Inbound Air Parcel Post (at UPU rates), to the competitive product list. *Id.* An initial review of the new product's prices indicated compliance with statutory requirements. *Id.* On June 26, 2014, the Commission accepted proposed price changes for Inbound Air Parcel Post (at UPU rates).<sup>4</sup>

On August 19, 2014, the Commission approved the Postal Service's request to: (1) transfer Inbound Surface Parcel Post (at UPU rates) from the market dominant product list to the competitive product list; (2) merge the transferred product with Inbound Air Parcel Post (at UPU rates); and (3) identify the merged product as Inbound

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<sup>2</sup> Docket No. RM2007-1, Order No. 43, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 100.

<sup>3</sup> Docket Nos. MC2010-11 and CP2010-11, Order Adding Inbound Air Parcel Post at UPU Rates to Competitive Product List, December 15, 2009 (Order No. 362).

<sup>4</sup> Docket No. CP2014-52, Order Accepting Price Changes for Inbound Air Parcel Post (at UPU Rates), June 26, 2014, at 5 (Order No. 2102). In Order No. 2102, the Commission also directed the Postal Service to provide, in future filings, a citation to where the applicable inward land rates can be located in the relevant UPU International Bureau (IB) Circular and to provide a copy of that circular. Docket No. CP2014-52, Order No. 2102 at 5. In addition, the Commission directed the Postal Service to provide an update, as part of each filing, of information and data that had been provided in the Management Analysis that had accompanied the prices proposed for Inbound Air Parcel Post (at UPU rates). *Id.* at 5-6. The Postal Service's states that it filed updated information as directed by Order No. 2102. Notice at 8-9.

Parcel Post (at UPU rates).<sup>5</sup> An initial rate review indicated compliance with statutory requirements. Docket No. MC2014-28, Order No. 2160 at 7. As part of Order No. 2160, Inbound Air Parcel Post (at UPU rates) and Inbound Surface Parcel Post (at UPU rates) were merged into a single product identified as Inbound Parcel Post (at UPU rates). *Id.*

*Initial Commission action.* On December 19, 2016, the Postal Service requested approval of price changes for Inbound Parcel Post (at UPU rates), scheduled to take effect on January 1, 2017. Notice at 9. The Postal Service also requested a classification change to include e-commerce parcels (ECOMPRO) as part of the Inbound Parcel Post (at UPU rates) product. *Id.* In Order No. 3677, the Commission provided public notice of the Postal Service's filing; established the instant dockets for consideration of the filing's consistency with applicable statutory requirements and Commission regulations; appointed a Public Representative; and provided an opportunity to comment.<sup>6</sup>

On December 21, 2016, Chairman's Information Request No. 1 was issued and requested information on the proposed ECOMPRO offering under Inbound Parcel Post (at UPU rates).<sup>7</sup> On December 27, 2016, the Postal Service filed its response to CHIR No. 1.<sup>8</sup> Also on December 27, 2016, the Postal Service filed supplemental data that incorporated possible ECOMPRO parcel flows.<sup>9</sup> On December 29, 2016, the Postal Service filed additional financial data that supported the cost for scans used in the

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<sup>5</sup> Docket No. MC2014-28, Order Approving Product List Transfer, August 19, 2014, at 8 (Order No. 2160).

<sup>6</sup> Notice and Order Concerning Changes in Prices for Inbound Parcel Post (at UPU Rates) and Related Classification Changes, December 20, 2016 (Order No. 3677).

<sup>7</sup> Chairman's Information Request No. 1, December 21, 2016 (CHIR No. 1).

<sup>8</sup> Responses of the United States Postal Service to Chairman's Information Request No. 1, December 27, 2016 (Response to CHIR No. 1).

<sup>9</sup> Notice of Supplemental Financial Support, December 27, 2016 (First Supplemental Notice). With its First Supplemental Notice, the Postal Service submitted a new certification that states that the planned price change and the proposed classification change meets the requirements of 39 U.S.C. § 3633(a). First Supplemental Notice, Attachment 1 at 1.

spreadsheets filed by the Postal Service on December 27, 2016.<sup>10</sup> On December 30, 2016, the Commission acknowledged that the planned prices for Inbound Parcel Post (at UPU rates) should satisfy the relevant statutory criteria and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.7.<sup>11</sup>

### III. PROPOSED CLASSIFICATION CHANGE

The Postal Service filed separately under seal with the Commission the prices and supporting documents that it represents show compliance with 39 U.S.C. § 3633(a)(2) and 39 C.F.R. § 3015.5. See Notice at 3; *id.* Attachment 4. The Postal Service's Application for Non-Public Treatment of those materials is included in the Notice as Attachment 1. A redacted version of UPU IB Circular 169, dated October 31, 2016, which sets the new prices for Inbound Air and Surface Parcel Post, is included as Attachment 2. A redacted version of UPU IB Circular 168, dated October 31, 2016, which sets the new prices for ECOMPRO, is included as Attachment 3. The certified statement required by 39 C.F.R. § 3015.5(c)(2) is included as Attachment 4.<sup>12</sup> Redacted excerpts of Postal Service data transmitted to the UPU to justify bonus payments are included as Attachment 5. A copy of the Postal Service's submission to the UPU in support of an inflation-linked adjustment for inward land rates is included as Attachment 6. A redacted copy of Governors' Decision Nos. 14-04 and 11-6 are included as Attachments 7 and 8, respectively. Proposed changes to the text of the MCS are included as Attachment 9.

In its Notice, the Postal Service states that it plans to begin accepting inbound parcel post with the ECOMPRO delivery option on or after January 22, 2017. Notice at

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<sup>10</sup> Notice of the United States Postal Service of Second Supplemental Financial Support, December 29, 2016 (Second Supplemental Notice).

<sup>11</sup> Order Acknowledging Changes in Prices for Inbound Parcel Post (at UPU Rates), December 30, 2016, at 5 (Order No. 3716).

<sup>12</sup> The Postal Service filed a new certification that states that the planned price change and the proposed classification change meet the requirements of 39 U.S.C. § 3633(a). First Supplemental Notice, Attachment 1 at 1.

4. The Postal Service states that the prices for the ECOMPRO offering will be the same as the UPU inbound air parcel prices. *Id.*; see *id.* Attachment 2 at 10; see Notice, Attachment 3 at 3. The Postal Service states that the ECOMPRO prices apply “when UPU designated postal operators from different countries voluntarily choose certain delivery options pursuant to UPU regulations for air parcel exchanges.” Notice at 4 (footnote omitted). The Postal Service lists several differences between the Inbound Air Parcel Post and ECOMPRO offerings—specifically, ECOMPRO does not require signature upon delivery. *Id.*; see *id.* at n.5. The Postal Service requests Commission approval of the classification change and the associated revisions to the MCS. *Id.* at 9.

Additionally, the Postal Service states that it may enter into bilateral agreements that offer discounted rates for ECOMPRO parcels. *Id.* at 6. The Postal Service requests Commission approval to file future bilateral ECOMPRO discounted price agreements in these dockets and include the effects in the financial workpapers filed with successive price changes. *Id.* at 9. The Postal Service states that this procedure will benefit regulatory efficiency and mail security. *Id.* at 6-7. The Postal Service further states that the Commission approved a similar process for Inbound Express Mail Service (EMS) discounted rates. *Id.* at 7. However, the Postal Service notes that quarterly updates would not be necessary as the Postal Service files new UPU inbound rates and financial support for Inbound Parcel Post at six-month intervals. *Id.* The Postal Service states that such filings could include the flow and data changes caused by any discount agreements. *Id.*

#### IV. SUMMARY OF PUBLIC REPRESENTATIVE'S COMMENTS

The Public Representative filed comments on December 29, 2016.<sup>13</sup> No other comments were received. The Public Representative concludes that “adding ECOMPRO agreements with the same rates as Inbound Air Parcel Post (at UPU [r]ates) should not increase the risk that revenues for the Inbound Parcel Post (at UPU [r]ates) product will fail to cover cost.” PR Comments at 2. The Public Representative recommends that the Commission approve the Postal Service’s request to add ECOMPRO agreements with prices equivalent to that of inbound air parcels to the Inbound Parcel Post (at UPU rates) product. *Id.* at 4.

The Public Representative does not support the Postal Service’s proposed procedure to include ECOMPRO bilateral agreements for discounted prices within the Inbound Parcel Post (at UPU rates) product. *Id.* at 2, 4. She notes that unlike the Inbound EMS 2 product, the Postal Service did not propose specific discounted prices or provide financial models that show that the discounted prices comply with 39 U.S.C. § 3633(a). *Id.* at 2-3. Rather, she recommends that the Postal Service file a competitive rate adjustment pursuant to 39 C.F.R. part 3015 for ECOMPRO agreements for discounted prices until the Postal Service can demonstrate that inclusion of such ECOMPRO agreements allows Inbound Parcel Post (at UPU rates) to meet the requirements of 39 U.S.C. § 3633. *Id.* at 4.

#### V. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the financial analysis provided under seal that accompanies it, the Response to CHIR No. 1, the supplemental financial information, and the Public Representative’s comments.

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<sup>13</sup> Public Representative Comments on Changes in Prices for Inbound Parcel Post (at UPU Rates) and Related Classification Changes, December 29, 2016 (PR Comments). The Public Representative also filed a motion for late acceptance of her comments. Motion of Public Representative for Late Acceptance of Comments, December 29, 2016 (Motion). In Order No. 3716, the Commission granted the Motion. Order No. 3716 at 4 n.8.

*ECOMPRO parcels at inbound air parcel prices.* The Postal Service states that the ECOMPRO offering should not impact the conclusion that Inbound Parcel Post (at UPU rates) will cover costs because the prices are equivalent and the costs would be expected to be lower. Notice at 4. The Public Representative concludes that adding ECOMPRO parcels at the same prices as inbound air parcel prices “should not increase the risk that revenues for the Inbound Parcel Post (at UPU rates) product will fail to cover costs.” PR Comments at 2. The Commission has reviewed the supplemental financial data filed by the Postal Service on December 27 and 29, 2016, and finds that the Postal Service demonstrates that the proposed classification for the ECOMPRO offering at prices equivalent to inbound air parcel prices are expected to comply with the statutory criteria intended to ensure that competitive products are not cross-subsidized by market dominant products, that they cover costs, and make a contribution to institutional costs. See 39 U.S.C. § 3633(a)(1) through (a)(3). Thus, the proposed classification change comports with the provisions applicable to competitive products. The Commission approves the proposed ECOMPRO offering at prices equivalent to inbound air parcel prices.

When it filed its Notice, the Postal Service did not include revenue and cost data for Inbound Parcel Post (at UPU rates) that incorporate the proposed ECOMPRO offering as required under 39 C.F.R. § 3015.3(c)(1). Rather, the Postal Service stated that it “intends to make a supplemental filing with new financial support data showing any differences in its assumptions based on the expected ECOMPRO flows as soon as possible, and, in any event, on or before January 6, 2017.” Notice at 4-5. In its Response to CHIR No. 1, the Postal Service acknowledged that revenue and cost data for Inbound Parcel Post (at UPU rates) that incorporate the proposed ECOMPRO offering are necessary for the Commission to determine whether the proposed classification change satisfies the requirements of 39 U.S.C. § 3633. It is critical that the Postal Service file all required revenue and cost data when it files its notice.

The Commission notes that the Postal Service justified the lack of supporting financial data based on the need to approve the new UPU rates for Inbound Parcel Post, as the prices went into effect January 1, 2017. However, the Universal Postal Convention (2014) required the Postal Service, by August 31, 2016, to notify the UPU of its rates for Inbound Parcel Post and ECOMPRO parcels that would take effect on January 1, 2017.<sup>14</sup> UPU IB Circular 168, dated October 31, 2016, is further evidence of the Postal Service's advance notice of its intent to add the ECOMPRO offering to Inbound Parcel Post (at UPU rates). Notice, Attachment 3. Thus, the Postal Service had sufficient time to develop revenue and cost data for Inbound Parcel Post (at UPU rates) that incorporate the proposed ECOMPRO offering before it filed its Notice on December 19, 2016.

*Proposed procedure to file future bilateral ECOMPRO discount agreements.* The Postal Service proposes that any future bilateral agreements that offer discounted ECOMPRO prices be filed in these dockets. Notice at 6-7. The Postal Service notes that the Commission approved such a process for Inbound EMS 2 in Docket No. CP2013-77. *Id.* at 7.

In her comments, the Public Representative notes that unlike Docket No. CP2013-77, in the instant dockets, the Postal Service neither proposed specific discounted prices nor provided financial models that incorporate the effect of the discounted prices. PR Comments at 3. She states that because the Postal Service's financial workpapers use non-discounted ECOMPRO prices to calculate cost coverage, she was unable to assess the effect of discounting ECOMPRO prices in potential future agreements. *Id.*

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<sup>14</sup> Universal Postal Union Convention, 2014, Article RC 195, Inward Land Rates category, paragraph 2.3ter.4, and Article RC 116bis, E-commerce Delivery category, paragraph 2.6.



In Docket No. CP2013-77, the Postal Service requested Commission approval for changes to the Inbound International EMS 2 product description.<sup>15</sup> Specifically, the Postal Service requested Commission approval for discounted prices to be offered to certain postal operators within Tier 1, known as Tier 1b discounts. Inbound EMS 2 Notice at 3. In Docket No. CP2013-77, the Postal Service's financial models included the least cost-covering potential discounts to demonstrate that even if the greatest discounts were applied, Inbound EMS 2 would still meet the requirements of 39 U.S.C. § 3633.<sup>16</sup> In Order No. 1865, the Commission granted the Postal Service's Inbound EMS 2 Motion and permitted the Postal Service to provide notice of all approved Tier 1b discount agreements in its quarterly updates to the Commission.<sup>17</sup> The Commission noted that the process would confirm that the implemented prices fell within the approved Tier 1b discounts. Docket No. CP2013-77, Order No. 1865 at 3.

In the instant dockets, the Postal Service neither proposed specific discounted prices nor provided financial models that incorporate the effect of the discounted prices. As the Public Representative observes, this lack of information and supporting financial workpapers prohibits any analysis on whether future bilateral ECOMPRO discounted agreements would comport with the provisions applicable to prices for competitive products. Accordingly, while the Commission approves adding the ECOMPRO offering at prices equivalent to inbound air parcel prices to the Inbound Parcel Post (at UPU rates) product, the Commission does not approve the process proposed by the Postal Service for filing bilateral ECOMPRO discounted price agreements under these dockets. Thus, the Commission does not approve the proposed MCS revisions that incorporate discounted ECOMPRO price agreements.

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<sup>15</sup> Docket No. CP2013-77, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability and Changes to Product Description for Inbound EMS 2, August 15, 2013, at 2-3 (Inbound EMS 2 Notice).

<sup>16</sup> Docket No. CP2013-77, Motion for Reconsideration of Order No. 1822, September 19, 2013, at 3 (Inbound EMS 2 Motion).

<sup>17</sup> Docket No. CP2013-77, Order Granting Motion for Reconsideration of Order No. 1822, October 30, 2013, at 3 (Order No. 1865).

The Commission will make the conforming changes discussed above to the draft MCS language regarding the Inbound Parcel Post (at UPU rates) product as proposed by the Postal Service. The Commission's revisions to the draft MCS language to reflect approval of the proposal are shown below the signature line of this Order.

#### VI. ORDERING PARAGRAPHS

*It is ordered:*

1. The proposed ECOMPRO offering at prices equivalent to Inbound Air Parcel Post parcels, scheduled to take effect on or after January 22, 2017, is in accordance with the relevant statutory and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.7.
2. If the Postal Service enters into any bilateral agreements for discounted ECOMPRO prices, it shall file such agreements with the Commission pursuant to 39 C.F.R. part 3015.
3. The draft Mail Classification Schedule will be modified as discussed in the body of this Order and as shown below the signature line of this Order.
4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the changes made in this Order.

By the Commission.

Stacy L. Ruble  
Secretary

## CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

### Part B—Competitive Products

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#### **2300 International Products**

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#### **2310 Inbound Parcel Post (at UPU rates)**

##### 2310.1 Description

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##### *Inbound Air Parcel Post (at UPU rates)*

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- b. Reciprocal indemnity based on the weight of the parcel is included, unless otherwise specified by the Universal Postal Union Acts or bilaterally by the parties. Limits of indemnity based on weight correspond to the outbound limitations for Priority Mail International service specified in the International Mail Manual.

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##### 2310.6 Prices

Foreign postal operators pay the Postal Service inward land rates for the delivery of inbound mail. The Universal Postal Union (UPU) Postal Operations Council (POC) sets the amount paid for incoming air parcel flows tendered by postal operators with which there is no contractual relationship governing the applicable price except when such rates are otherwise fixed by the POC upon notification by the Postal Service. Payment by the foreign postal operators is made in accordance with Universal Postal Convention Part III, Chapter 2 and associated UPU Parcel Post Regulations. This information is available in the Parcel Post Manual at [www.upu.int](http://www.upu.int).

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